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ABSTRACT

This publication discusses the new educational environment of global competition between and among public and private higher education institutions, as well as new corporate providers of educational services, and how it will affect campus activities and board of trustee decision-making processes. The report notes the many powerful external forces work already shaping the challenges, opportunities, and programs of colleges and universities. These include (1) new student demographics (unprecedented numbers of traditional age college students; larger pools of minority high school graduates; dramatic variations among regions and states; and continued demand from adults students, especially for technology-based education); (2) changing labor markets that demand new skills (ability to learn, communicate, and adapt, as well as a good work ethic and personal motivation); (3) emergence of the Internet and associated information technologies, which will place higher education's competitive environment in a global context; (4) new providers of postsecondary education and training who challenge the market share of traditional colleges and universities; (5) higher education customers, accustomed to high standards from American business, who expect improved service from colleges and universities; and (6) intensive competition and a changing public policy context which will exacerbate cost, price, and productivity measures. Boxed case material highlights the text. (Contains 19 references.) (SM)

Priorities



A membership service of the Association of Governing Boards to help trustees and chief executives identify and address strategic policy issues.

Responding to the New Market for Higher Education

BY JAMES R. MINGLE

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Responding to the New Market for Higher Education

BY JAMES R. MINGLE

HIGHER EDUCATION is a highly competitive enterprise. Admissions officers vie for larger enrollments, presidents for wealthier donors, and faculty for greater prestige. But something is distinctly different about the new competitive environment. Keener, quicker, and more global, competition between and among public and private higher education institutions—as well as with the new corporate providers of educational services—is growing at a fearsome pace. Why is this happening, and how will it affect campus activities and the decision-making processes of boards of trustees? This issue of *Priorities* addresses these questions.

A new wave of competition will challenge the ways boards conduct business.

Peter Drucker, the guru of American management theory, says that the purpose of any organization can be found outside the organization. This is no less true for higher education. The values and traditions of the academy are venerable sources of strength, but if board members are to understand what the future may hold for their institutions, they must look to the external environment to understand the



context in which those values and traditions must operate. In the years ahead, some powerful external forces will shape the challenges, opportunities, and programs of colleges and universities. Many of these forces already are at work:

- A new demographic mix of students will affect institutions and states in dramatically different ways.
- The changing labor market will demand new skills from workers.
- The emergence of the Internet and associated information technologies will place higher education's competitive environment in a global context.

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Priorities

- New providers of postsecondary education and training will challenge the market share of traditional colleges and universities.

- Higher education's "customers," accustomed to high standards from American business, will continue to expect improved "service" from colleges and universities.

- Intensive competition and a changing public-policy context will exacerbate cost, price, and productivity pressures.

Market-driven enterprises, including higher education institutions, tend to maximize price and quality and expand choice and response time. By definition, they serve their customers' needs in ways defined fundamentally by the customer. In a market-driven higher education system, the perspectives of students, employers, and public-policy makers shape the missions, goals, and programs of colleges and universities in important ways.

But market-driven systems also have their shortcomings. To work efficiently, markets depend upon informed consumers who can make wise choices. Markets often are callous to those who are without resources. And markets create winners and losers among competitors. With a public that might not fully comprehend its choices, an underclass that senses it lacks access, and a large number of small or marginal institutions struggling to stay afloat, the competitive landscape for higher education is a minefield.

As higher education continues to move from a producer-dominated enterprise to one fully sensitive to and focused on the consumer, the perspective of independent professionals—faculty who understand the contours and rigors of various curricula, for example—may be lost. Moreover, in their efforts to meet the demands of students who want a diploma to guarantee a job and corporations that want graduates certified to possess certain skills, colleges and universities may find they are neglecting or ignoring important societal goals and values. If not higher education institutions, what other segment of society will be standard bearer of the traditional values of a liberal arts education?

The job of governing boards in the years to come will be to find the proper balance among these forces: the market, the academy, and the public interest. These forces will affect different institutions to varying degrees. Some with large endowments and national name recognition

Maintain access, quality, and affordability, the public says. Without creative new solutions, this will be a difficult task for governing boards.

will remain virtually immune from the competition engendered by new providers. Others will continue to serve student bodies that have limited choices, either because of finances or geography. Some will receive significant protection for their traditional roles and missions from state legislative bodies. Most institutions, however, will feel the press of competition and market forces in significant ways.

Public expectations of higher education appear to have no bounds. Always a high priority, the importance of a college degree appears to grow with every national survey. In 1993 and 1998, the research and polling firm Public Agenda, in cooperation with the National Center for Public Policy and Higher Education, surveyed 700 Americans about their attitudes toward higher education. The results noted a high level of value in 1993 and an even higher level five years later. Eighty-six percent of the respondents agreed with the statement, "High school graduates should go on to college because in the long run they'll have better job prospects." And more than two-thirds of respondents thought it a bad idea for campuses to accept fewer applicants as a way of dealing with financial problems.

Such public expectations are likely to put considerable pressure on colleges, especially in states with fast-growing populations. Maintain access, sustain quality, and keep costs affordable, the public says. Without creative new solutions, this will be a difficult task for governing boards.

Each of the following sections discusses the external market pressures and their impact on colleges and universities.



The New Demographic Mix

Demography has driven much of the post-World War II history of American colleges and universities. In the 1950s, public-sector institutions expanded to accommodate the pent-up demand of returning GIs. That growth accelerated as the children of the war generation—the baby-boomers—knocked on the doors of all colleges and universities. And now it is the “echo” of this baby-boom generation—the grandchildren of those returning GIs—who are creating yet another cycle of growth.

According to the latest U.S. Department of Education projections, enrollment in public and private institutions will rise gradually from 14.1 million in 1997 to 16.1 million in 2007, the latest year for which estimates have been made. This represents a 14 percent increase over this ten-year period and a total increase of 30 percent since 1982.

But the demographic soup is a very different mix depending upon an institution's location and mission. Growth trends vary widely across the country and are affected by different birth rates, immigration, and interstate migration (see the sidebar and charts on page 4). Add to this a burgeoning market for adult learning driven by work-force demands that are industry and location specific, and a complex picture emerges.

Here are some trends gleaned from national, regional, and state data sources:

1. Expect unprecedented numbers of traditional-aged college students. Since the mid-1980s, the annual number of high school graduates in the United States has increased. This trend is expected to grow steadily through 2007-08, according to a 1998 report from the Western Interstate Commission for Higher Education. About 2.7 million students graduated from high school in spring 1998. By 2007-08 that number will rise to 3.2 million, an increase of 17 percent in ten years.

These high school graduates—the “baby-boom echo”—not only are large in numbers but also are attending college at unprecedented rates. In October 1996, 65 percent of 1995-96 high school graduates were enrolled in college, the highest proportion on record since these data first were collected in 1959.

2. Colleges will draw from a larger pool of minority high school graduates. The last two decades have seen major shifts in the racial and ethnic composition of U.S. high school

A Checklist for Board Members

The new competitive environment will challenge the ways boards carry out their business. It will require new kinds of information and a more rapid response to changing conditions. In evaluating your institution's response to the new market, consider the following:

- 1. Know your competition and emphasize the distinctiveness of your mission.** This is Job One. You cannot compete if you do not have a focused agenda and are unaware of the competition.
- 2. Improve and expedite your institution's decision-making process.** The big difference between the academic and corporate sectors is a sense of urgency. In a market-driven environment, decisions must have a strategic focus and be time-sensitive. They cannot wait for the faculty to return from summer break or for administrators to take extended vacations.
- 3. Be more “data driven” in your decision making.** Major program decisions with significant financial implications often are made with only sketchy information about costs, markets, or alternative ways of accomplishing the same goal. Insist on thorough data-based analyses before you reach your decisions as a board.
- 4. Support choice for your own students.** One size doesn't fit all. With technology and a customer focus, your institution can develop programs and services that will be responsive to individual needs.
- 5. Find ways to partner with other institutions and with the business community.** The competitive environment, for reasons of quality and cost, will push many institutions to create strategic partnerships. The new mantra may be “collaborate or perish.”
- 6. You're not supposed to make a profit!** Some programs need subsidy and protection. Don't be afraid to support the financial “losers” when they are important to student development, social priorities, and campus mission. Balance customer perspective with the judgment of faculty and administrators.

graduates. Between 1976 and 1996, the white non-Latino proportion of the high school graduating class declined about 20 percent, while the proportion of all other racial and ethnic categories grew. This trend is projected to continue into the next decade.

Many institutions and states already are working on strategies to motivate and better prepare these students for college-level work

Demography Will Affect Enrollments and Student Services

Although the number of high school graduates will increase among all racial and ethnic groups in the United States, the rates of growth will vary among the groups. This will affect the proportion of each group in the total. The fastest growing groups are American-Indian/Alaskan Natives (32 percent), Asians/Pacific Islanders (32 percent), and Latinos (30 percent), although the number of students in the first group is comparatively small. By comparison, the number of African-American high school

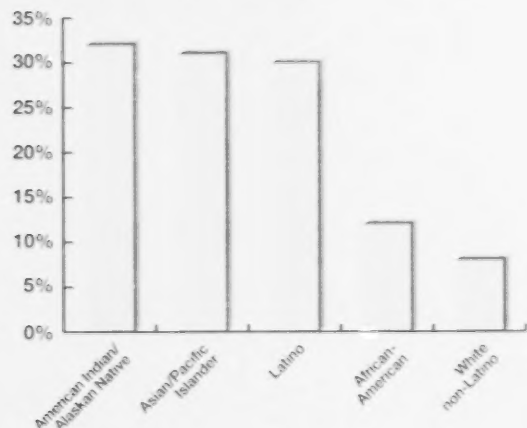
graduates will increase by 12 percent; thus, their proportion will remain about the same. White non-Latino graduates will increase by only 8 percent, resulting in a slightly smaller proportion of the total.

These changes will occur unevenly across the country. For example, Latinos will comprise more than one-quarter of all high school graduates in four states: Arizona, California, New Mexico, and Texas. By 2007-08, the West will be the first region in which white non-Latinos account for a minority of all high school graduates.

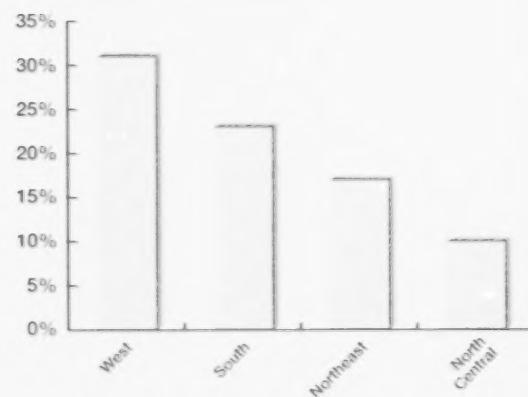
The implications of these

population trends are complex. The rate of attending college varies by racial and ethnic group. For example, African-American and Latino high school graduates attend college at a lower rate than do white non-Latinos. In fall 1996, while 66 percent of white high school graduates from the previous spring were enrolled in college, only 55 percent of African Americans and 51 percent of Latinos were enrolled. Thus, increases in the numbers of minority high school graduates do not automatically produce equal increases in the number of minority college freshmen.

Projected Growth of High School Graduates by Racial/Ethnic Group (1993-94 to 2000-01)



Projected Growth of High School Graduates by Region (1995-96 to 2011-12)



Source: Western Interstate Commission on Higher Education, 1998

Nevertheless, these demographic trends will produce political pressures for greater minority enrollment in college. Further, of those who do attend college, a larger proportion of minority students are likely to be the first in their families to attend college, to have come from economically disadvantaged backgrounds, and to have attended high schools that provided lower quality precollegiate coursework. These factors also will impose pressures on colleges and universities to develop better approaches for serving these students.



(see the sidebar on page 7). The goals of these initiatives are to increase attendance rates, reduce the need for remediation, and improve graduation rates. Even more of this type of activity is likely to be necessary in the decade ahead as a

result of the growing numbers of minority high school graduates.

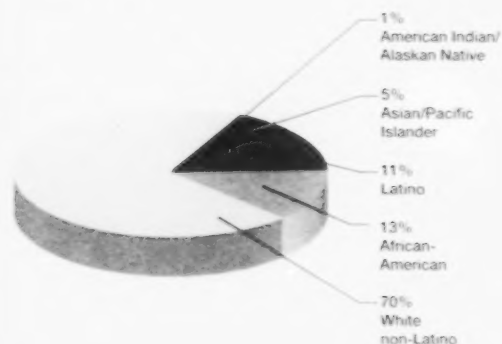
3. *Look for dramatic variations among regions and states.* While all regions of the country will experience some growth in the number of high school graduates, higher education institutions in different parts of the country will face very different demographic conditions. The West will experience the highest growth, with the number of high school graduates expected to increase by 31 percent from 1995 to 2011. In contrast, the North-Central region will grow only 10 percent, while the South and Northeast regions will fall in between.

Within this overall pattern of growth, states will experience dramatic differences, even among states within the same region. In fact, while their neighbors experience the pressures of growth, some states in every region will experience declining numbers of high school graduates.

4. *Expect continued demand from adult students, especially for technologically based instruction.* The number of traditional-aged college students declined in the late 1970s and fluctuated during the 1980s. Yet the number of adult students (25 and older) enrolled in postsecondary education in the 1990s has grown significantly. This is due in part to the sheer numbers of baby-boomers in their early to middle adult years who need or want to acquire new knowledge and skills so they can advance beyond or keep up to date in their current job (see the sidebar on page 14). Other adult learners seek personal enrichment, training for a new job, or a diploma or degree. Even senior citizens now participate to a significant degree; 11 percent are involved in educational activities, supporting the notion that learning is a lifelong activity. Most adult learners are women.

Traditional enrollment projections might suggest a smaller overall proportion of adults in the years ahead (due to large increases in the

Projected Distribution of Public High School Graduates by Racial/Ethnic Group (2000-2001)



State Trends in High School Graduates, by Region (Percent change between 1995-96 and 2011-12)

Most to Gain		Looming Losses	
West		West	
Nevada	+134 %	Wyoming	-12 %
Arizona	+62 %		
Colorado	+36 %		
Washington	+36 %		
California	+28 %		
Oregon	+26 %		
South		South	
Georgia	+49 %	West Virginia	-17 %
Florida	+44 %	Louisiana	-7 %
North Carolina	+35 %		
Texas	+26 %		
Northeast		Northeast	
Maryland	+30 %	District of Columbia	-20 %
Connecticut	+25 %	Maine	-5 %
New Jersey	+25 %		
New Hampshire	+22 %		
Delaware	+21 %		
North Central		North Central	
Illinois	+18 %	North Dakota	-16 %
Minnesota	+15 %	Iowa	-1 %
Michigan	+14 %		

Source: Western Interstate Commission on Higher Education, 1998



number of 18 to 24 year-olds). But adults may not follow traditional patterns. Technology-based instruction is expected to expand greatly the convenience and availability of college courses to working adults. Nor are there accurate ways to project the demand for short courses, modules, and other "learning experiences" that often are left out of analyses that focus on traditional types of enrollment. Judging from the level of entrepreneurial activity on the part of colleges and the interest of the for-profit and corporate sector in education and training, this adult market is sizable. Colleges and universities able to operate through the Internet in a global market environment have great potential to tap this market.

The Changing Labor Market and the Demand for New Skills

Higher education is highly sensitive to changes in labor-market demands. In the 1960s, a shortage of college faculty led to a significant increase in graduate programs. In the same period, engineering programs expanded as aerospace and public-works projects grew. Health-care programs multiplied in the 1980s and 1990s in response to demands from this sector. More recently, talk of teacher shortages has fueled expansion and reform of schools of education, and the growth of the information-technology industry has spurred collegiate interest in math, science, and computing.

Economists have noted for some years the decline in manufacturing and the growth of the "service sector." Anthony P. Carnevale, a labor economist and vice president of Educational Testing Service, takes a different view of the economy and its implications for higher education. He suggests a new "office economy"—a force of nearly 53 million well-educated workers—is "reengineering every industry and profession and changing the way America works." Forget terms like the "service sector" and "high tech" employers, who may not employ highly skilled workers at all, says Carnevale. Instead, he says, focus on functions across sectors.

The office economy includes all workers who perform administration and coordination functions in public and private enterprises—about 41 percent of America's work force. Included in the category are 23 million elite jobs (managers and other professionals), 26 million "good jobs" (clerical workers, supervisors, computer support personnel), and only about 3.5 million "less skilled jobs" (janitors and building maintenance personnel).

Some highlights from Carnevale's *The New Office Economy* report:

- Office work dominates the U.S. economy, pays the highest salaries, is growing at the fastest rate, and employs more than one-half of all college graduates.
- The office economy has sharply increased wages and opportunities for African Americans.
- The majority of college graduates become office workers.

The report states: "The much-ballyhooed demand for 'technical' skills is overstated. Such skills are a significant but small part of the

Here's How States Are Increasing Access and Improving Student Preparation for College

In addition to maintaining relatively open access to community colleges and allowing a certain percentage of students to be admitted "conditionally"—that is, without meeting stated requirements—many states are developing collaborative strategies between the K-12 and postsecondary sectors to improve student preparation for college. As Alene Bycer Russell outlined in *Statewide College Admissions, Student Preparation, and Remediation Policies and Programs*, common approaches include the following:

- Creating early outreach programs to inform, motivate, and support younger students as they plan and prepare for

college. Most are aimed at underrepresented groups and are designed to increase access to college.

- Providing information for middle and high school students and parents through letters, brochures, and Web sites that address college-admissions requirements and how to prepare for college and apply for financial aid.

- Smoothing the transition from high school to college by providing high school students with weekend or summer experiences on college campuses.

- Allowing high school students to take college courses for credit.

- Providing feedback to high schools on how their graduates perform in college.

- Bringing high school and college faculty together to work on curriculum and standards.

economy. The major fields of high-earning, college-educated workers are located in business offices.... Visit any American suburb, any downtown, any strip mall, any industrial park, any shopping center [and] you'll find offices: high-rise towers for banks, insurance companies, government agencies, accountants, and lawyers; sprawling low-rise complexes containing small and mid-sized real estate offices and consultants; cheap walk-up offices for struggling entrepreneurs; office suites with plush carpets and shared secretaries for executives who are switching careers in mid-life from corporate to consulting. By any measure of economic impact, it is the office sector that now dominates."

The American labor market is both extraordinarily diverse and exceptionally dynamic, making it difficult not only to generalize about the knowledge and "skill sets" college graduates need but also to make predictions about the future demand for specific occupations. Yet many colleges and universities have taken important steps to gather information and perspective from the employers that hire their graduates. Through surveys and interviews of employers and external advisory groups, increasing numbers of colleges stay closely tuned to this changing job market. This information is shaping college programs in important ways.

What do employers want? Simply put: They want it all and at ever-increasing levels of rigor. A 1996 RAND Corp. study found that corporate respondents wanted students to possess substantive knowledge in their academic disciplines before hiring a candidate. For the long term, however, they sought an ability to learn, communicate, and adapt as well as a good work ethic and personal motivation. Other criteria corporate leaders ranked high included prior work experience, cross-cultural experiences, and foreign language competency.

A 1995 survey of New Jersey employers by researcher Carl Van Horn asked employers to suggest how colleges and universities could improve the recruitment and employability of their graduates. Providing more experience-based learning such as internships and co-op programs topped the list, followed by soliciting employers' views on curricula, providing a single point of contact for information about students, and providing more detailed information on each student.

The Emergence of the Internet

Economic growth in our nation and the world depends increasingly on a sophisticated telecommunications infrastructure. The emergence of the Internet, e-mail, and the World

The competitive environment, for reasons of quality and cost, will push many institutions into strategic partnerships.



Wide Web have changed the way businesses operate and consumers shop. A recent Department of Commerce report, *The Emerging Digital Economy*, revealed some startling statistics: In 1994, three million people (predominantly in the United States) used the Internet. In 1998, 100 million people around the world do so. Some experts estimate nearly one billion people will be using it by 2005. By any measure, the growth of Internet use over the past several years has been phenomenal.

Electronic consumer purchases of such goods as books, cars, and flowers are steadily increasing as consumers become more comfortable using the Internet at work and at home. In addition to retail sales, the digital *delivery* of goods and

services continues to grow. Software, news, stocks, airline tickets, and banking services need not be physically delivered to consumers when it is cheaper and more convenient to do so in a digital format. But not everyone prefers to conduct business this way. For most consumers, the Internet today primarily is a tool to provide knowledge about choices and prices.

This "digital revolution" may well be the most profound force ever to affect colleges and universities. It is changing fundamentally how institutions conduct business and how workers communicate. Ultimately, it will change how faculty teach and students learn. A recent report from Educom's National Learning Infrastructure Initiative, *The Public Policy Implications of a Global Learning Infrastructure*, sets out several possibilities for the "digital future" of higher education. Among the changes it predicts are the following:

- *"Unbundling" of the instructional process.* Technology enables the separation of instruction from assessment, teaching from degree granting, and content development from content delivery. (For example, the new Western Governors University will assess and credential students who may have received their instruction elsewhere.)

- *Expansion of learning opportunities.* Distance-learning technologies such as the Internet, cable, and satellite-based systems enable learners to access education whenever and wherever they wish.

- *Lowering of entry barriers to the higher education marketplace.* New commercial and nonprofit educational providers can create learning materials that students may choose based on quality, convenience, and price rather than geography. Existing educational institutions also can expand their geographic reach as regulatory barriers begin to fall.

Already we are seeing evidence that part of this future is taking shape. According to a 1997 report by the National Center for Education Statistics (NCES), about 75 percent of all higher education institutions planned to offer at least some courses by distance education in the near future. Among institutions that were offering distance-education courses at the time of the survey (fall 1995), the top two goals mentioned were increasing student access by making courses available at convenient locations, and

The International Market: One Institution's Assessment



As part of a strategic planning effort at Indiana University, Blaise Cronin, dean of the school of library and information science, and Thomas Duffy, a professor in the school of education, examined the trends in "distributed education"—a term many believe more adequately describes the current environment than the "distance education." An excerpt from their 1997 paper follows:

"Global projections for the next decade result in a massive learning pool of over 100 million FTE students. Given the trajectory of this demand curve, and given the prohibitive cost of building a sufficient number of new campuses to house this population explosion, governments and universities alike will be challenged to find imaginative and effective ways of responding to expressed and latent demand.

"In many less developed countries and newly industrialized nations, rising

birth rates are placing tremendous stresses on fledgling higher education systems. In Malaysia, for instance, half of the population (20 million people) is under the age of 25, and the local university system is incapable of absorbing even a small fraction of existing demand. One partial solution has been to send students to overseas universities, typically in the United States, Great Britain, and Australia, but this translates into an ill-affordable annual trade deficit in educational services of \$500 million for the Malaysian government.

"As these nations develop indigenous capability with online educational delivery strategies, such large-scale exportation will not be necessary. The effect will be a net reduction in overseas tuition revenues for American higher education institutions. At the same time, countries like Malaysia, Indonesia, South Africa, Mexico, Venezuela, and Chile constitute potential markets for North American educational content providers."

—Excerpted from
"Distributed Education and Indiana University," June 1997.

increasing the institution's access to new student audiences. The greatest barriers keeping institutions from starting or expanding distance-education offerings were (1) program development costs, (2) equipment failures and/or the cost of maintaining equipment, and (3) a limited technological infrastructure to support distance education. Interestingly, the *least* frequently mentioned barriers to starting or expanding distance-education programs were an inability to obtain state authorization and restrictive federal, state, or local policies.

Despite the barriers, almost every post-secondary institution in the nation is getting into the distance-learning business. Several of the nation's most prestigious schools (Cornell, Duke, Stanford, Rice, and Columbia universities, for example) are developing niche-oriented programs that focus on specialized degrees and professional schools. Duke University recently launched an Internet-based Global Executive

MBA program; it lasts 19 months and is priced at \$82,500. Almost one-half of the program's students live outside the United States, demonstrating that brand-name power can extend to global markets.

In the public sector, big players such as Penn State, Cal State, and the University of Wisconsin have made distance education an integral part of their mission. With the entry of prestigious universities into the marketplace, critics may begin to accept distance education as mainstream rather than a second-class activity.

The New Competitors

Traditional institutions are by no means the only players in the new global market for postsecondary education. Corporate universities run by such behemoths as Disney and Motorola, as well as universities that specialize in distance education and in meeting the needs of nontraditional students, are growing and

Case Study

Going Its Own Way: Warren Wilson College

Private liberal arts colleges outside the "elite" group may find it increasingly difficult to compete. What they need, says Doug Orr, president of Warren Wilson College, is to have a niche and to understand their students' needs.

Situated in the Swannanoa Valley of the Blue Ridge Mountains near Asheville, N.C., Warren Wilson College is home to 650 students and 125 faculty. Small, even for a liberal arts college, Warren Wilson has developed a formula of work, service, and the liberal arts to attract a dedicated student body and core of important private supporters.

All students are required as a condition of graduation to work 15 hours a week on one of nearly a hundred different work crews, ranging from administrative

support to building maintenance and repair to the college farm. A large percentage of graduates move on to nonprofit or service-sector jobs, as well as to the Peace Corps.

Orr became the college's fifth president in 1991. The college recently completed a successful fund-raising campaign (\$26 million) and has attracted national attention with its unique mission. Orr shared his thoughts about the importance of staying true to mission.

How does a small liberal arts college compete for students primarily concerned with job success and campus social life?

I know that Warren Wilson is running against the grain of vocationalism, which so dominates higher education right now. But

we tend to attract a different kind of student—those seeking to discover their "life philosophy" and their place in the world. Unless we can respond to these yearnings, we miss a tremendous opportunity. Warren Wilson is about the holistic development of young people. This is our antidote to the trends we see operating in the popular culture—trends that value instant gratification, materialism, violence, and what I would call "literalism"—the failure to see and understand the beauty and value of abstract ideas.

How do students with this kind of orientation find you?

The work and service ethic is very close to the surface. It is hard to hide. If you speak honestly about yourself, students find that compelling. It certainly is hard to manufacture.

What do you see as the primary value of the work program?

Our work program is not about "skills development," except in the most generic sense. Nor is it about

thriving. Internationally based providers include the United Kingdom's Open University, with more than 100,000 graduates since 1969, and Athabasca in Canada, with a student population of 12,500. In the United States, fully accredited degree-granting institutions include the University of Phoenix (see sidebar on page 12), Walden University (which provides doctoral degrees in selected areas for the practitioner market), and the National Technological University (the market leader in providing distance education to engineers via live satellite to receiver sites across North America and the Pacific Rim).

While the predominant mode of distance-education delivery remains two-way interactive video, Internet-based courses are on the rise. Many students find that taking courses online offers great convenience and flexibility. Institutions find that putting courses online requires a much smaller capital investment in equipment and airtime than two-way video. Some institutions have been surprised to learn that the audience for online courses consists not of working adults but of their own campus-based students. Indeed students who do not live on campus find the process of enrolling in online courses more difficult. Because most institutions

do not offer complete degree programs via the Internet, students searching for online educational opportunities face a smattering of information on courses available from a wide array of institutions.

Several "virtual catalogs" are available to assist students in their search for online courses. At varying stages of development are the Southern Regional Education Board's Electronic Campus, the California Virtual University, and the Western Governors University Virtual Catalog. A number of online indexes, such as Internet University and the Electronic University Network (EUN), can guide students to providers that offer Internet-based courses and, to a lesser extent, degree programs.

Judging by the NCES data on distance education, smaller institutions are having difficulty competing with larger institutions in the distance-education arena. Many small, regional, and private institutions fear the larger players will encroach upon their undergraduate and

Insist on thorough, data-based analyses before your board acts.

earning money, although that certainly helps in offsetting our tuition and fees. It's really about being a part of a community and taking some responsibility for that community. It's also about valuing work—work of all kinds, but especially blue-collar work and craftsmanship—something I believe is being lost in this society.

How important is the work program in keeping the college affordable?

Without the work program, I'm sure we would have to hire more staff and probably significantly increase tuition. Our fees are \$3,000 to \$7,000 less than those of our peer institutions.

What are the financial challenges in small liberal arts colleges?

It's getting tougher to compete with the publics. We have to convince students and parents that the extra debt they are incurring is worth it. We have to run the place with an eye on the balance sheet every time we make a decision. And college administrators and

boards constantly have to face the discount issue: How much do we raise tuition to fund student aid? We have done this only to a modest degree, but it is constantly on our minds.

You've talked about Warren Wilson as a community. What is the board's involvement in that community?

I've been surprised by how easy it has been to recruit a national board for this institution. Our board members are intrigued by our mission and respect it. Our location doesn't hurt either. They seem to really enjoy our students and our faculty, and they respect our shared governance system. Of course, the board is the ultimate decision maker on the direction of the institution—especially through our chair.

Why did the institution decide to increase its enrollment over the next several years?

We concluded that we need to grow to about 800 students to be financially and academically

stronger. But we don't want to get so large as to ruin our strong sense of community. Providing meaningful work for all of our students will be one of the biggest challenges.

Warren Wilson, like other colleges, has had a problem with freshman dropouts. Why?

Some students find the demands of the work programs are too great. Others—the "seekers and searchers"—absorb the experience and move on. This isn't all bad. The students who stay, however, develop an amazing affection for the place and for one another.

What is the biggest challenge at Warren Wilson?

In many ways it is the same here as in every other liberal arts colleges: finding a way to sustain this institution financially. We've done this by defining our niche and presenting that clearly to our prospective students and supporters. We are also blessed with an extraordinary physical setting, which we can capitalize upon.

continuing-education enrollments. In Pennsylvania, 36 of the state's private colleges have entered into a statewide cooperative agreement with other institutions to strengthen their own distance-education classes. They see Pennsylvania State University's growing distance-learning efforts (including its "World Campus," which aims to enroll 5,000 students by 2003) as a threat to their livelihood. The state's regional public institutions also feel threatened. But rather than compete with smaller in-state colleges, name-brand institutions are more likely to look out of state and overseas for new markets. Ironically, some state institutions are finding it easier to operate in other states where regulatory and political barriers are minimal than in their own states.

Colleges and universities seeking a competitive advantage are forming substantive alliances with one another and with the business community in this new competitive environment. Strategic partnerships and structural alliances are replacing the more informal goal of collaboration and cooperation. This is especially advantageous for those seeking a foothold in the burgeoning adult-learning market. A few examples:



- Rensselaer Polytechnic Institute, a private university in Troy, N.Y., has an ambitious distance-learning program that enrolls more than 900 students nationally and internationally. Partners include Lockheed Martin (eight sites), General Motors (15 sites, including Mexico and Luxembourg), and IBM (13 sites, including Germany and Canada). Corporate partners provide tuition reimbursement and site administration for their two-way interactive video delivery.

- A coalition of unions, telecommunications companies, cooperating institutions, and the Council for Adult and Experiential Learning is set to launch an Internet-based associate degree program in telecommunications.

- Community colleges in Colorado are cooperating to deliver a joint associate degree in business over the Internet. Using a for-profit Web-page developer (Real Education, Inc.), each institution is offering a portion of the curriculum.

- The Michigan Virtual Auto College (MVAC), a new multimillion-dollar collaboration between

Case Study

University of Phoenix: Serving the Market for Adult Learning

The for-profit University of Phoenix, with 48,000 students at nearly 60 campuses in 13 states, has discovered that adult education, skillfully marketed, is a gold mine. Witness the growth of Apollo Group's stock price since the parent company went public in 1994. Starting out at \$2.50 per share, the price per share has soared beyond \$40, giving the company a market capitalization of more than \$2 billion. Moreover, revenues have

jumped an average of 30 percent every year since 1994. During the last fiscal year, the company took in \$283 million and added 17 new locations. Total enrollment at all of Apollo's ventures—Phoenix, the Institute for Professional Development (which offers Phoenix-style courses through existing universities), Western International University, and the College for Financial Planning—now has reached 87,500. Now the largest private university in

the nation, the University of Phoenix's newest additions include campuses in Tampa, Seattle, and Portland, Ore.

The tactics behind Phoenix's success include convenient class times and locations, standardized courses that are easily replicated, a faculty of practitioners instead of academics, an emphasis on business-related subjects, and before-and-after testing of students. It has been regionally accredited since

Michigan State University, the University of Michigan, the state of Michigan, and the automotive industry, is in the planning stage. The MVAC will provide technology-enhanced courses and training for the automobile industry, including the Big Three U.S. manufacturers.

Expectations for High-Quality Service

In large part, customer-service improvements in the consumer market have raised students' expectations for service from their colleges and universities. Students no longer tolerate standing in endless lines when such functions as admissions, registration, and financial aid are possible over the telephone and the Web.

The development of a "customer service" focus at colleges and universities naturally began in the area of student services. From the moment a prospective student makes an initial phone call or visits an institution's Web site, he or she expects to be treated as a valued customer.

Innovations in the area of student services include consolidating previously disparate administrative units (such as admissions, registrar, and financial aid) into a one-stop shopping center through which students may take care of multiple business tasks. Institutions place services such as registration, degree audits, and grade reports on the Web for students to access at their convenience, and they cross-train student-service employees to handle multiple questions from students. The idea is to move away from functional "silos" in order to present a seamless system of services to students. Pioneers in

developing these electronic services for students include the University of Delaware, Babson College, the University of Minnesota, Oregon State University, the University of British Columbia, and the University of Pennsylvania.

Not only does reengineering student services improve the quality of service to students, but it also can save money. Cost savings come primarily from reducing the number of service transactions that require staff intervention and increasing the number of transactions students can conduct for themselves. For example, when a student enters his or her own registration data directly into the university's computer system via Web registration, this eliminates a task that previously required staff resources. This new service-delivery model completely reverses the old model that depended heavily on direct human contact.

Market Research in Higher Education

Customer focus also means that programs develop more from consumer demand than from faculty preference, though large numbers of faculty—especially in applied programs—have shown a remarkable degree of market sensitivity. This has affected course and program development, advising, and the integration of work experiences with academic programs. Market research has helped colleges and universities discover new educational markets, assess the current needs of underserved markets, and better serve the interests of existing markets. An especially significant characteristic of current

1979, due in large part to its emphasis on evaluation and testing of student outcomes. For the most part, its undergraduate degrees cover business administration and nursing; master's degrees are given in these subjects as well as in education, counseling, and information systems. The institution accepts no one under the age of 23 and only those who are gainfully employed.

Phoenix's emphasis on the needs of working people mean classes are offered at convenient times and locations. Class cycles begin monthly, year round, and are offered in six-week intervals. Typically, classes are held in rented office space conveniently situated near the students' work places. Since the curriculum is geared to the needs of businesses, employers often share tuition costs with students. Ranging

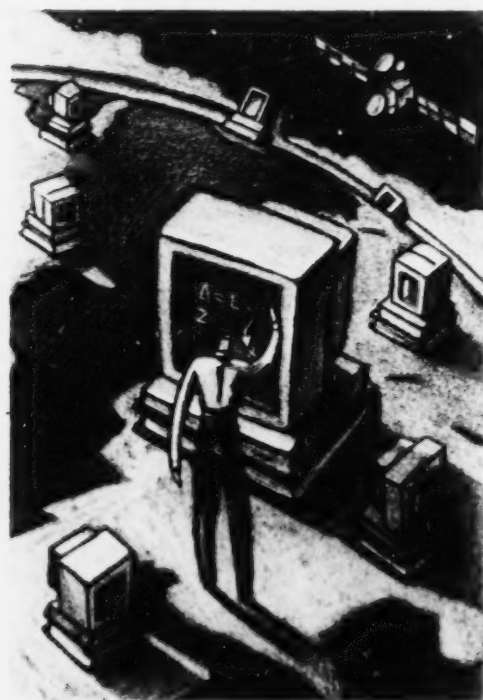
from \$6,300 to \$8,000 per academic year, tuition is higher than most public colleges yet well below the national average for private schools.

Phoenix's part-time professors are not academics but professionals with master's degrees (or higher) and an average of 16 years of work experience in the fields they teach. By hiring such individuals, the university sidesteps high salaries, tenure, and other thorny issues usually connected with faculty. Professors generally are paid \$1,000 per course. And the no-frills atmosphere allows Phoenix to forego physical libraries (an electronic one serves all campuses). Online learning is a growing segment of the university's business, with 4,700 students all over the world now working toward degrees without ever

leaving the comfort of their homes.

Replication is the key to the university's exponentially increasing profits. In Phoenix, a central body of 26 course designers develops the curriculum for every course. Standardized teaching methods, handouts, texts, and tests are then farmed out to the 4,100 faculty nationwide. This strategy gives Phoenix a competitive edge in any new market it cares to enter. As for geographical frontiers, Phoenix's leaders have been scouting the possibilities in Malaysia, Singapore, Taiwan, and Hong Kong. And with its aggressive lobbying efforts underway, it is coming soon to an office building near you.

—Adapted with permission from
University Business,
"Gas, Food, Lodging...Education?"
March/April 1998.



market research is its focus on identifying "customer" needs rather than on trying to sell the "product," which has been the traditional function of the college or university.

Examples abound of aggressive new market-research initiatives by public and private institutions. Typical is the effort of the University of North Carolina Board of Governors. In 1996, the board initiated a statewide needs assessment that focused on the availability of higher education opportunities in underserved areas. It wanted to know what programs might be in

demand and whether this demand would be sufficiently large to allow for cost-effective delivery. The university system conducted telephone interviews with randomly selected households, collected written responses to newspaper inserts, and surveyed community college transfer students and public school teachers. The result: new funding initiatives to support extension programs and plans to offer baccalaureate degrees on community college campuses.

Cost, Price, and Productivity Pressures

As the recent report of the National Commission on the Cost of Higher Education notes, there is a significant public outcry over tuition levels and much confusion over the terms "cost" and "price" when applied to higher education. Most people do not know that the price students pay to attend college does not equal what it costs public or private institutions to provide that education, and they are unaware of the extent of state, federal, and private subsidies.

That college tuition has been on the rise for a number of years at a rate greater than inflation or personal-income growth is a well-known and undisputed fact. The reasons for this increase, however, are hotly disputed. Excessive regulation is a favorite target of colleges, as are the demands of students and the public for a greater range and higher level of service and quality. Other analysts, most notably higher education finance expert Arthur M. Hauptman, point to the easy availability of loans as a price escalator.

David W. Breneman, an economist and dean of the school of education at the University of Virginia, suggests two main theories of college cost increases: The first emphasizes the "craft" nature of the industry, which does not permit productivity increases (as labor costs rise, so too do college costs). But many legislators, board members, and business leaders do not buy into the "craft" model. They believe it is possible to cut costs, maintain or improve quality, and increase productivity.

Breneman's second theory suggests colleges (especially in the independent sector) charge

Have Job, Need Education

The U.S. Department of Education's National Center for Education Statistics conducts periodic surveys on various education-related matters. In 1995, the National Household Education Survey gathered data on adult education. Some findings follow:

- 51 percent of employed persons 17 years-old and older participated in some form of adult-education program within the previous year.
- The majority of these individuals, which constitutes 31 percent of all employed persons, participated in career or job-related courses. 8 percent of all employed persons participated part-time in higher education.
- 49 percent of career or job-related courses and 11 percent of part-time higher education courses were provided by businesses.
- 86 percent of career or job-related courses were paid for by businesses, and 43 percent of part-time higher education courses were paid for by businesses.
- 17 percent of employees received work-related computer-aided instruction.

what the market will bear. That is, tuition has risen because students and families have been willing to pay. In the public sector, instead of keeping tuition low with appropriated tax funds, legislators have acquiesced to the market.

How will the new competitive market and changes in public policy affect the cost, price, and productivity of higher education? In theory, more competition should mean more choices and lower prices for students. But demand for a high-quality educational experience remains high, and neither states nor the private sector appear enthusiastic about expanding significantly to meet this demand. For now, the choices for many students will remain relatively limited, especially for those pursuing degrees.

As the higher education market becomes further segmented and diffused, the impact of competition will be difficult to gauge. A community college program in computer science may compete with a cheaper, self-paced training program from the commercial sector. But few of the new providers are attempting to compete with expensive graduate and professional education programs in research universities. Nor do they challenge the "high touch" liberal arts college aimed at traditional-aged students (see the case study of Warren Wilson College on page 10). Instead, the virtual and corporate universities tend to concentrate on such niches as education and business programs for adults, where costs are lower.

Student behavior, however, already is changing. Students enrolled in expensive four-year

programs shop around for cheaper community colleges courses that will transfer. Others are adding online courses and saving the cost of commuting and child care. High school students looking for ways to shave future tuition bills are seeking "dual enrollment" or Advanced Placement courses in their senior year.

Colleges and universities also will have to adjust to changes already apparent in the methods of financing higher education. Tuition tax credits, HOPE scholarships, and other portable student-aid programs expand choice and competition. Interstate cooperatives like the Southern Regional Education Board's Electronic Campus and the Western Governors University also may mean the end of out-of-state tuition rates, at least for electronic delivery.

This competitive market already has spawned a competitive pricing strategy among public and private institutions. Rather than basing tuition on cost or revenue considerations, they are pricing their programs according to market factors. What is the competition charging? Are students willing to pay more or less for the convenience of technology-based delivery? Should we offer group discounts to corporate clients?

The central question for board members in the future may be this: Shall we compete on quality or price? In the past, with a relatively static view of quality, becoming "world class" was the goal of most institutions of any size. Now, with a wide variety of technology choices for instructional delivery, the question may be: What is "good enough" for the objectives we have in mind and the price students are willing to pay? Part of the answer may be more "self-directed" learning on the part of students, where expensive faculty mediation is used only when needed.

A New Role for Public Policy:

Making Up for Market Shortcomings

A number of factors are converging that are likely to reinforce the competitive marketplace model in higher education. Many public-policy makers now openly encourage for-profit education institutions and corporate involvement in higher education. Traditional higher education institutions are pushing the federal government and state legislatures to loosen their oversight and allow them greater freedom to manage their own affairs. At the same time, policy makers are promoting

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accountability for outcomes and are encouraging boards to disseminate information about performance to students and parents.

As public institutions increasingly rely on tuition, they are likely to be more market driven. State and federal subsidies for tax credits and portable student aid also are likely to grow, thus adding to the competitive environment. This should strengthen the competitive position of private colleges against their public-sector counterparts, although significant price differentials are likely to continue.

A market-driven system of higher education that is customer focused is likely to be a highly responsive, pragmatic, and revenue-driven enterprise. But it also may neglect important social and educational priorities. The job of public-policy makers will be to fill those gaps—to support the arts, to sustain the nation's leadership in basic research, to provide need-based aid to further the goals of equal access for all, and to change its own practices to ensure that institutions of all types have a fair opportunity to compete.

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BY THOMAS C. LONGIN

N

ot too long ago, college officials would have rejected out of hand the notion that market forces might be reshaping the nature, structure, and focus of higher education. In fact, most academics not only disliked the language of the marketplace—marketing, management, competition, productivity, and “the bottom line”—but they also saw little connection between the campus and the world of business.

Suddenly, however, this comfortable but illusory world has been turned on its head. Higher education publications regularly refer to the *new consumers* (students, parents, employers, and the state), the *new producers* of educational goods and services, and yes, the *new competition* or the *new marketplace*. Reputable scholars, traditional think tanks, and blue-ribbon commissions trumpet the dramatic impact on higher education of a new student profile, a revolution in information technology, a more critical populous that expects greater service and lower cost, and above all, the threat of a wide array of new corporate, for-profit, and virtual providers of postsecondary education.

Why this sudden change in the perceptions, language, and discourse of higher education? In this issue of *Priorities*, James R. Mingle, the executive director of the State Higher Education Executive Officers, unfolds the fascinating story of the transformation of higher education,

in less than a generation, from a *producer-driven* enterprise to a *consumer-driven* enterprise. Concerned that the professional voice of the faculty—with their sensitivity to and intimate knowledge of curricula—might be lost in this transformation and that “important social goals and values” might be neglected in higher education’s quest for survival, Mingle challenges governing boards to find the proper balance between the market, the academy, and the public interest.

Every postsecondary institution will be affected by the forces of change swirling about us. And boards will play a critical role in ensuring their institutions are ready to deal with rapid change while maintaining a balance of vision and rationality, to sustain a focus on learning and the learner, to see fresh opportunities for program enhancement and expanded service, and to make strategic alliances to improve efficiency and heighten performance.

No longer, then, is it acceptable for concerned chief executives or untrusting faculty to urge boards to keep a respectful distance from the core educational mission of their institutions. Indeed, as Mingle suggests, the new competitive marketplace calls for informed and sensitive governing boards to be actively engaged with other stakeholders in mapping the institution’s future course. In this process, all stakeholders will need to collaborate in the quest for mission distinctiveness, high-quality programs that respond to the needs of students and society, learning outcomes of the highest order, and the viability and vitality of the institution.

—Thomas C. Longin is AGB vice president for programs and research.



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